



The President's Daily Brief

10 March 1971

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PRINCIPAL DEVELOPMENTS

The themes to be highlighted at the Soviet party congress are discussed on *Page 1*.

The Communists have taken the last major government base on the eastern rim of the Bolovens Plateau in Laos. (*Page 2*)

Cambodia

(*Page 3*)

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William McMahon has been chosen by the Australian Liberal Party as the new prime minister. (*Page 4*)

The effect of the massive outflow of US short-term capital to Western Europe is discussed on *Page 5*.

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USSR

[redacted] the themes to be highlighted at the Soviet party congress have been distributed by the party to its own members and to East European parties. The congress, it is said, will cite the precarious nature of current US-Soviet relations and will portray these relations as unlikely to improve in 1971. US actions in Indo-China and alleged intransigence at SALT will be mentioned as factors contributing to this situation. The congress will hail three foreign policy "victories": Soviet advances in the Mediterranean area; the move from fighting to talking with China; and the Soviet and Polish treaties with West Germany.

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These themes are fairly predictable. We do not expect anything to be said at the congress that would close the door to continued US-Soviet negotiations on various issues, but the sober assessment of US-USSR relations may appear particularly gloomy alongside the foreign policy "triumphs" that will be loudly proclaimed at the congress. Indeed, if improved relations with Western Europe are to be emphasized at the congress, a certain amount of criticism of the US is especially necessary to satisfy those party members who are concerned that not enough is being done to maintain Communist "vigilance."

On the domestic front, according to the report, the congress will dwell on two "victories": the good 1970 harvest, and the promise of improved consumer welfare under the new five-year plan.

Predictions that the congress will focus on the consumer reinforces our belief,

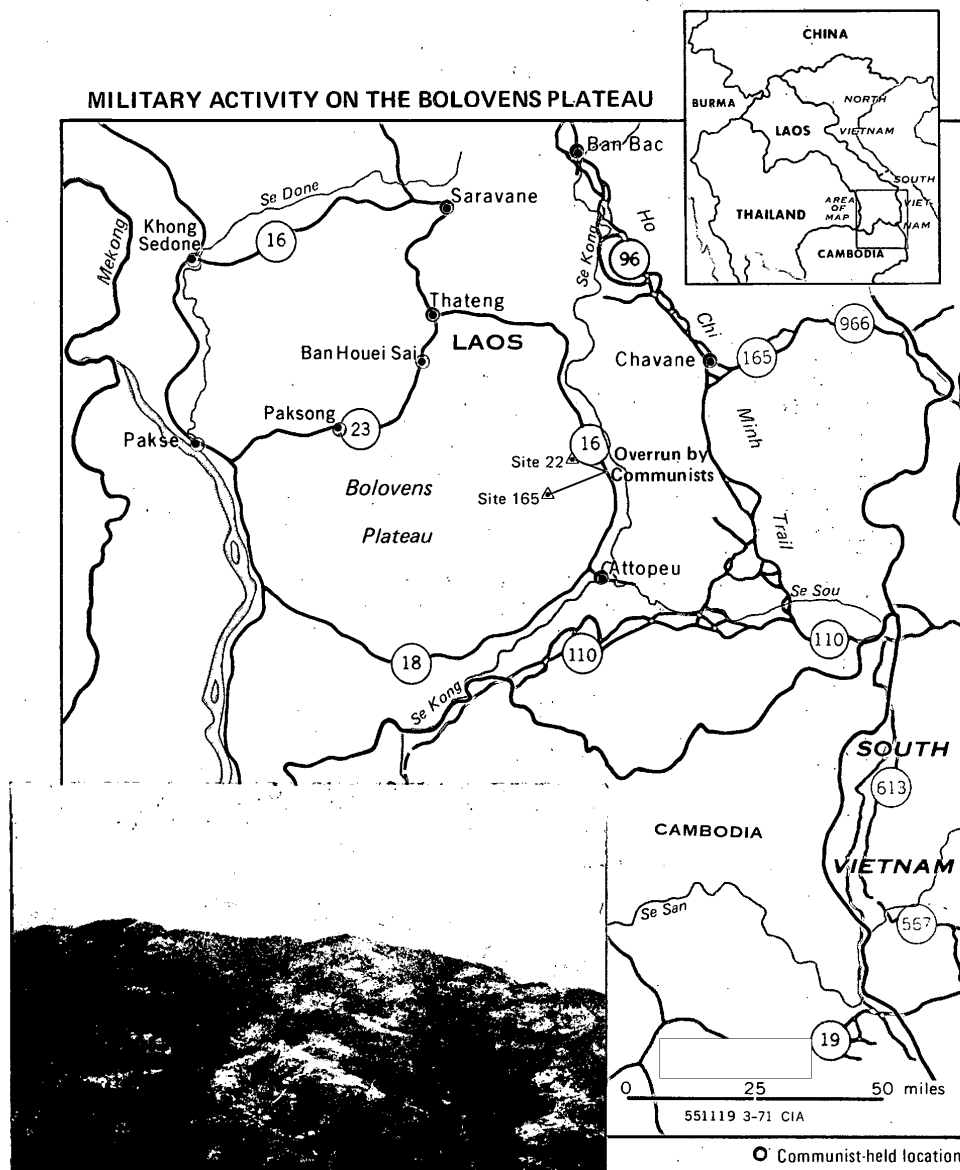
[redacted] *that real economic reforms will be eschewed in favor of promises and exhortations.*

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[redacted] *except for this report, there has been remarkably little authoritative communication from Moscow on the prospects for the congress. Soviet leaders seem to be scratching to compile a positive record and a program that will head off criticism of their performance. Polish events in December have added to their anguish and most likely contributed to the decision to beat the drums on consumer welfare.*

MILITARY ACTIVITY ON THE BOLOVENS PLATEAU



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Site 22 on the eastern edge of the Bolovens Plateau, overlooking the Se Kong

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LAOS

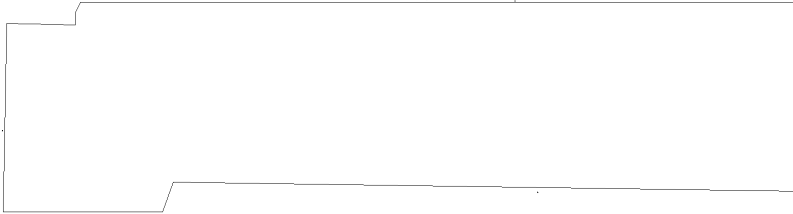
Site 22, the last major government base on the eastern rim of the Bolovens Plateau, was evacuated by its four battalions of irregular defenders yesterday after more than two days of almost continual shelling and ground attacks by a Communist force estimated at three battalions. On 8 March, two irregular battalions abandoned Site 165, which is some five miles southwest of Site 22. All six irregular battalions are withdrawing westward, and heavy government air strikes are being called in on the enemy forces.

Fighting in the Bolovens region had been at a low ebb since early January, when government defenders repulsed a Communist assault on the northern side of the Plateau. Communist forces have been regrouping for a new thrust at the irregulars, especially on the eastern rim where the government bases have been an irritant to Communist operations along the infiltration corridor into Cambodia.

The tenacity of the assault on Site 22 suggests that the Communists place considerable emphasis on clearing the heights overlooking Route 16 and the Se Kong River. These have not yet figured prominently in the Communists' logistic effort in the lower panhandle, but it is possible that the enemy would like to make greater use of the westerly river and road routes to Cambodia in the waning months of this year's dry season.

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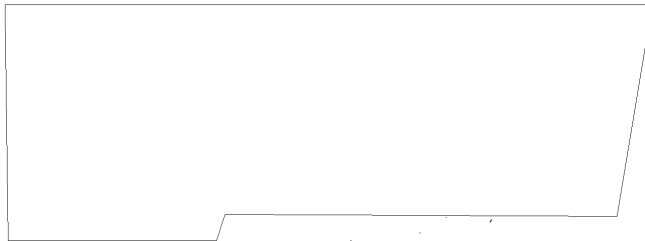
CAMBODIA



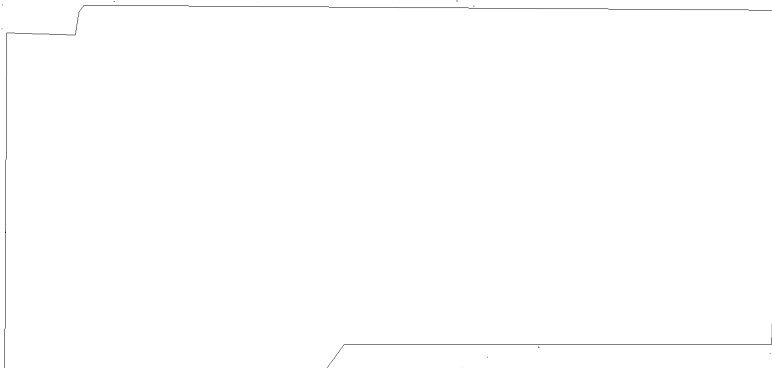
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AUSTRALIA

The Liberal Party today chose former foreign minister and deputy party leader William McMahon to replace John Gorton as prime minister. McMahon will lead a coalition government composed of the Liberal and Country parties, which has a majority of six in the larger and more important 125-member House of

Representatives. The coalition is a minority in the 60-member Senate, however, and its control there will depend on support from the small Democratic Labor Party.



William McMahon

McMahon brings to his posts a depth and breadth of government experience and expertise equaled by few of his colleagues. He has been a firm supporter of the Australian-American alliance, of an Australian military presence in Southeast Asia, and of the allied commitment in Vietnam. McMahon has displayed some sensitivity, however, over the degree of US influence on the Australian economy because of extensive private American investment.

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US - WESTERN EUROPE

The massive outflow of US short-term capital to Western Europe, which has occurred since the reduction of interest rates in the US, has caused deep resentment on the part of European central bankers,

Between 1 April 1970 and 28 February 1971, Western European central banks increased their dollar holdings by about \$11 billion. West Germany took in nearly \$7 billion of this total, including \$900 million in February alone. The short-term capital flow to Europe, which totaled over \$1 billion in the last week of February, has continued at a high rate in early March.

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This flow has made it particularly difficult for the Europeans to exercise the monetary controls they believe are necessary to fight their own inflationary problems. If they were to combat the influx of dollars by making parallel rate reductions of their own, they would, of course, only add to their problems. The present situation greatly strengthens the long-felt resentment in Europe over large US balance-of-payments deficits, which have forced European bankers to accumulate billions of unwanted dollars year after year instead of gold. Europeans may express their displeasure in the short run by converting some of their dollars into gold.

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There is no doubt about the antidollar mood of European central bankers. Other economic officials, as well as political and military leaders, however, may be less willing than the central bankers to accept the consequences of a disruption of present international monetary arrangements.

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NOTE

Pakistan: There has been little significant movement in the dispute between East and West. President Yahya Khan is expected to arrive in Dacca soon, presumably to see whether it is still possible to reach a compromise with Mujibur Rahman. The general secretary of Mujib's Awami League says the party is now in de facto control of the province's civil administration, but he fears that the military will soon try to re-establish its control and to arrest or kill Awami League leaders.

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